KINETIC MINES AND ENERGY LIMITED
力量礦業能源有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1277

Interim Report 2018

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Zhang Li *(Chairman)*
Mr. Gu Jianhua *(Chief Executive Officer)*
Mr. Zhang Liang, Johnson

Non-executive Director
Ms. Zhang Lin

Independent Non-executive Directors
Ms. Liu Peilian
Mr. Zheng Ercheng
Ms. Xue Hui

AUDIT COMMITTEE
Ms. Liu Peilian *(Chairman)*
Mr. Zheng Ercheng
Ms. Zhang Lin

REMUNERATION COMMITTEE
Ms. Xue Hui *(Chairman)*
Ms. Liu Peilian
Ms. Zhang Lin

NOMINATION COMMITTEE
Mr. Zhang Li *(Chairman)*
Mr. Zheng Ercheng
Ms. Xue Hui

AUTHORISED REPRESENTATIVES
Mr. Gu Jianhua
Mr. Chan Kwok Wai, Danny

COMPANY SECRETARY
Mr. Chan Kwok Wai, Danny

REGISTERED OFFICE
Clifton House
75 Fort Street, P.O. Box 1350
Grand Cayman KY1-1108, Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
Dafanpu Coal Mine
Majiata Village, Xuejiawan Town
Zhunge'er Banner, Erdos City
Inner Mongolia, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Unit B, 20th Floor
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68 Connaught Road Central
Hong Kong

LEGAL ADVISER
Stephenson Harwood
18th Floor, United Centre,
95 Queensway, Hong Kong

AUDITOR
Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

HONG KONG SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKER
China Minsheng Banking Corp., Ltd

STOCK CODE
1277

WEBSITE OF THE COMPANY
www.kineticme.com

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Kinetic Mines and Energy Limited (the "Company"), I am pleased to report the interim results of the Company, together with its subsidiaries (the "Group"), for the six months ended 30 June 2018.

Suffering from geopolitical issues, US-induced trade wars and financial market turmoil, the global economic recovery was under pressure in the first half of 2018. Greater differences saw in growing pace among countries, while the performance of global economy was basically sound and steady. The overall macro-economy of the PRC kept its stable development with upward trend, while the social and economic development achieved sound results, moving towards a green, low-carbon and shared economy, thereby fostering a new growth driver for the economy. In the first half of 2018, China's GDP reached RMB41.9 trillion, representing a growth of 6.8% over the same period last year.

According to the work report of the PRC Government, the de-capacity targets in 2018 include approximately 30 million tonnes of steel, approximately 150 million tonnes of coal and elimination of unqualified coal-fired power plants which are under 300,000 kilowatts. Against the backdrop of further deepening the supply-side reform and continuously enlarging effective demand by the PRC government, focusing on de-capacity is the key to achieve steady economic development and stable growth. With de-capacity in orderly manner and acceleration in eliminating backward production capacity, the quality and efficiency for the steel and coal industries will optimize continuously.

In the first half of 2018, by continually implementing the macro-control policy of de-capacity through improving the quality of supply systems and reducing the inefficient supply, the coal industry has achieved a balance between supply and demand and increased capacity utilization. In addition, the coal enterprises accelerated the development pace of high-quality capacity and maintained a balance between de-capacity and sufficient supply, thus promoting the industry moving towards high-quality development through optimizing the layout of coal industry and facilitating the upgrading and transformation of coal enterprises.

As a leading integrated coal enterprise in China, the Group has extensive scope of activities, covering coal production, washing, loading, transportation and coal trading. Meanwhile, the major segments of the industry chain saw sound development while the sales volume and the consolidated net profit of coal products have gained significantly, making contribution to the Group's financial performance. For the six months ended 30 June 2018, the sales volume of the Group's commercial coal was approximately 2.51 million tonnes, representing a significant increase of 63.0% as compared with the same period last year. Meanwhile, the turnover reached RMB1,150.4 million, representing a growth of 56.0% over the same period last year. During the reporting period, the Group recorded a consolidated net profit of RMB399.4 million, compared with RMB185.1 million in the same period of 2017.

Chairman's Statement

By virtue of the significant capital investment by the Group in previous years, we have constructed Dafanpu Coal Mine into one of the safest, the most efficient coal mines with automation in China, with an aim to achieving better cost effectiveness and higher gross profit margin compared to our peers. The Group's gross profit margin increased from 40.3% for the six months ended 30 June 2017 to 50.0% for the six months ended 30 June 2018. For the six months ended 30 June 2018, the Group's earnings before interest, tax, depreciation and amortization (EBITDA) reached RMB621.6 million (six months ended 30 June 2017: RMB345.8 million).

Looking forward to the second half of 2018, by focusing on cost reduction, efficiency improvement and quality enhancement, the PRC government will maintain the policy of supply-side reforms and actively resolve excess production capacity, while steadily and orderly promote the integration of coal resources, in order to facilitate the balance between demand and supply and maintain stable coal price. The Group is cautiously optimistic about the development of the industry and the business prospects in the second half of 2018.

By leveraging on its core competitiveness, the Group will continue to seize market opportunities and actively expand quality projects, striving for better returns for shareholders.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, business associates, management members and employees for their continued dedication and unwavering support.

Zhang Li
Chairman and Executive Director

21 August 2018

Management Discussion and Analysis

OVERVIEW

Market Review

In the first half of 2018, the global economy was under pressure yet maintained modest growth. As the world's second largest economy, China's economy in general maintained a sound and steady growth momentum. China achieved a gross domestic product ("GDP") of RMB41.9 trillion, representing a period-on-period increase of 6.8%. China's economy has maintained growth within a range of 6.7% to 6.9% for twelve consecutive quarters. Under the effect of supply-side reform and market adjustment, overcapacity has been alleviated and the gap between supply and demand has been narrowed down. The operation of the production gradually became stable and the pace of upgrade for economic structure has been accelerating.

In the first half of 2018, supply and demand of China's coal market was generally balanced. Coal prices were in a reasonable range, and the industry's performance continued to improve. Sizeable coal enterprises in China produced approximately 1,700 million tonnes of raw coal, representing an increase of 3.9% from the corresponding period last year.

China imported a total of approximately 146 million tonnes of coal during the first half of 2018, increasing by 9.9% from the corresponding period last year, while China exported 2.4 million tonnes of coal, decreasing by 55.3% compared with the corresponding period last year. During the six months ended 30 June 2018, an aggregate of coal output of 1.17 billion tonnes was transported by rail in China, with a period-on-period increase of 10.2%.

Pursuant to the National Bureau of Statistics of China, the principal business income from coal mining and coal washing industries in China amounted to approximately RMB1.2 trillion during the first half of 2018, with a period-on-period increase of 5.8%. Coal mining and coal washing industries achieved a total profit of RMB156.4 billion, with a period-on-period increase of 18.4%.

In conclusion, the coal market maintained its upward momentum continuously same as last year, which accelerated the addition of high quality production capacity and coal product demand while the capacity and utilization of rail transportation and port handling maintained steady growth. Under the backdrop of macroeconomic regulation and control, the coal industry has been developing in an orderly manner with sound improvement in general.

Business Review

As a leading coal enterprise in China, the Group's business activities cover the entire coal industry chain, including coal production, washing, loading, transportation and coal trading. Taking advantage of the Group's substantial capital investments in early stage, its Dafanpu Coal Mine is built as one of the best coal mines in terms of safety and efficiency in China. By leveraging the competitive edge of efficient operation, enhanced production technology and experience, increased cost-effectiveness and well-developed industry chain, the output and sales volume of the Group maintains an upward momentum in generating a strong cash flow and profit.

During the first half of 2018, the Group sold a total of approximately 2.51 million tonnes of commercial coal, increasing by 63.0% as compared with the corresponding period last year. The Group achieved a total revenue of RMB1,150.4 million, representing an increase of 56.0% compared with the same period last year. During the reporting period, the average selling price of coal products per tonne was RMB456 (net of value-added tax). Due to better economies of scale and efficiency of the Group's operation, the gross profit margin increased 9.7 percentage point to 50.0% as compared with the same period last year.

For the six months ended 30 June 2018, the Group recorded a consolidated net profit of approximately RMB399.4 million (six months ended 30 June 2017: net profit of RMB185.1 million), a significant increase comparing with the same period of last year. The Group achieved a substantial increase in cash flow for the six months ended 30 June 2018, with an EBITDA of RMB621.6 million (six months ended 30 June 2017: RMB345.8 million).

Prospects

Looking forward to the second half of 2018, uncertainty in external environment is expected to increase. The PRC government is expected to maintain supply-side reform as the main policy, and actively stimulate effective domestic demand, to ensure the orderly operation of economy and healthy development of the coal industry with stable coal prices.

In April 2018, the National Development and Reform Commission and other five departments jointly issued the "Notice of Resolving Overcapacity in Key Areas in 2018 (《關於做好2018年重點領域化解產能過剩工作的通知》)", in which it was clearly specified that de-capacity and closure of enterprises which were unqualified will take place in order to further optimize resources allocation, increase high-quality incremental supply, achieve dynamic balance between supply and demand, improve the industry's sustainable mechanism and further boost mergers and acquisitions, transformation and upgrading and safe production, thereby bringing opportunities for development of the industry.

Following continuous deepening of supply-side reform, continuous advancement of de-capacity, tightening of environmental protection policies, industry consolidation and improvement towards quality development, the industry is entering a new phase where the best will survive. The Group has long been implementing refined management, focusing on quality and efficiency improvement and attaching great importance to environmental protection and production safety. The Group will continue to improve its operational quality, optimize its production and sales structure, and achieve sustainable growth to ensure that it will maintain growth and become a competitive, leading and efficient coal enterprise.

The coal industry is developing steadily with sound prospects. As a leading company in production technologies, safety and environmental protection and efficiency and quality, the Group is expected to develop stably and healthily in the second half of 2018 with stable profits and cash flows towards favorable development trend.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased from RMB737.5 million for the six months ended 30 June 2017 to RMB1,150.4 million for the six months ended 30 June 2018, representing a significant increase of 56.0% compared with the corresponding period last year.

The increase in the Group's revenue was largely in line with the increase in the Group's sales volume. The Group's coal sales volume increased from 1.54 million tonnes of commercial coal for the six months ended 30 June 2017 to 2.51 million tonnes of commercial coal for the six months ended 30 June 2018. In addition, the average selling price of the coal products was RMB456 (net of value added tax) per tonne for the six months ended 30 June 2018 compared to RMB479 (net of value added tax) per tonne for the six months ended 30 June 2017. The lower average selling price in the first half of 2018 was mainly attributable to the certain portion of sales prices which excluded the freight charges and port charges.

Cost of sales

For the six months ended 30 June 2018, the Group incurred cost of sales of RMB575.2 million. Cost of sales mainly comprises salaries of coal mine workers, costs of supplementary materials, fuel and electricity, depreciation, amortisation, surcharges of mining operations and transportation costs. The increase in the Group's cost of sales was mainly attributable to the increase in sales volume.

Gross profit and gross profit margin

For the six months ended 30 June 2018, the Group recorded gross profit of RMB575.2 million and a gross profit margin of 50.0% as compared to the gross profit of RMB297.3 million and a gross profit margin of 40.3% for the six months ended 30 June 2017.

The increase in gross profit margin for the six months ended 30 June 2018 was mainly due to better economies of scale and efficiency from operations.

Selling expenses

Selling expenses of the Group maintained at the same level of RMB3.7 million for the six months ended 30 June 2018 and 30 June 2017. The selling expenses mainly comprised salaries of sales staff and marketing related expenses.

Administrative expenses

The Group's administrative expenses increased from RMB44.1 million for the six months ended 30 June 2017 to RMB67.8 million for the six months ended 30 June 2018. The administrative expenses mainly comprised of salaries and related personnel expenses of the administrative, finance and human resources departments, consultancy fees and other incidental administrative expenses.

Finance costs

The Group's finance costs decreased from RMB26.5 million for the six months ended 30 June 2017 to RMB21.4 million for the six months ended 30 June 2018. The decrease in the Group's finance costs was largely in line with the decrease in the average interest rate and total amount of the Group's bank loans.

Income tax

The Group recognised income tax expense for the period using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expenses in the consolidated statement of profit or loss are:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current tax – Mainland China	**110,524**	47,914
Deferred tax		
Origination and reversal of temporary differences	**17,930**	9,048
Income tax expenses for the period	**128,454**	56,962

(a) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Company and its subsidiary, Blue Gems Worldwide Limited are not subject to any income tax in the Cayman Islands and BVI respectively.

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six months ended 30 June 2018 (six months ended 30 June 2017: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2017: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

From January 1, 2011 to December 31, 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The operation business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", so it enjoys a preferential corporate income tax rate of 15%.

Profit for the period

As a result of the foregoing, the Group recorded a consolidated net profit of RMB399.4 million for the six months ended 30 June 2018 (six months ended 30 June 2017: consolidated net profit RMB185.1 million).

Dividends

The Board of Directors proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2018. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2017: HKD84,300,000).

Statement of Cash Flows

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Net cash generated from operating activities	**419,420**	300,952
Net cash used in investing activities	**(130,265)**	(22,161)
Net cash used in financing activities	**(490,989)**	(249,134)
Net (decrease)/increase in cash and cash equivalents	**(201,834)**	29,657
Cash and cash equivalents at 1 January	**298,311**	85,742
Effect of foreign exchange rates changes	**336**	(96)
Cash and cash equivalents at 30 June	**96,813**	115,303

Net Cash Generated from Operating Activities

The Group's net cash generated from operating activities for the six months ended 30 June 2018 was RMB419.4 million, primarily due to profit before taxation of RMB527.9 million, adjusted for interest expenses on bank loans of RMB21.4 million, depreciation of RMB60.0 million, amortisation of RMB12.3 million, increase of inventories of RMB14.0 million, increase in non-current asset RMB32.1 million and income tax paid RMB152.7 million.

Net Cash Used in Investing Activities

The Group's net cash used in investing activities for the six months ended 30 June 2018 was RMB130.3 million, primarily due to the payments for purchase of property, plant and equipment of RMB53.8 million and increase in a loan granted to a company RMB77.0 million.

Net Cash Used in Financing Activities

The Group's net cash used in financing activities for the six months ended 30 June 2018 was RMB491.0 million, which was mainly attributable to the net repayments to the Group's bank loans of RMB275.0 million, dividend payment of the Group of RMB203.1 million and interest payments of RMB12.9 million.

Cash and Cash Equivalents

For the six months ended 30 June 2018, the Group's cash and cash equivalents decreased by RMB201.8 million and the exchange gain was RMB0.3 million. The net decrease in the Group's cash and cash equivalents was from RMB298.3 million as at 31 December 2017 to RMB96.8 million as at 30 June 2018.

OTHER FINANCIAL INFORMATION

Liquidity and Financial Resources

For the six months ended 30 June 2018, the Group's cash and cash equivalents was mainly used in the development of the Group's Dafanpu Coal Mine, to serve the Group's indebtedness and to fund the Group's working capital. The Group financed its funding requirements mainly through a combination of interest-bearing bank loans and cash generated from operating activities. The Group's gearing ratio decreased from 43.9% as at 30 June 2017 to 22.2% as at 30 June 2018. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank loans less cash and cash equivalents and pledged deposits for bank loans. Total capital is calculated as equity plus net debt.

As at 30 June 2018, the Group's cash and cash equivalents, amounting to RMB96.8 million, were denominated in Renminbi (84%) and Hong Kong dollars (16%).

As at 30 June 2018, the Group's interest-bearing bank loans were as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Current:		
Bank loans – secured	**180,000**	391,667
Current portion of long term bank loan – secured	**374,000**	429,000
	554,000	820,667
Non-current:		
Bank loans – secured	**125,844**	124,771
	679,844	945,438

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (31 December 2017: RMB150,000,000); and

(ii) the securities of equity interest of Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group; and

(iii) the mining rights of Inner Mongolia Zhunge'er Kinetic Coal Limited.

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to RMB554,000,000 (31 December 2017: RMB820,667,000), and Kinetic (Tianjin) Coal Co., Limited have guaranteed certain of the Group's bank loans up to RMB180,000,000 (31 December 2017: nil) as at the end of the reporting period.

Contingent Liabilities

The Group had no material contingent liability as at 30 June 2018.

Capital Expenditures and Commitments

The Group incurred capital expenditure of approximately RMB20.7 million for the six months ended 30 June 2018, which was mainly related to the maintenance and/or construction of coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group's capital commitments as at 30 June 2018 amounted to RMB59.3 million which were mainly related to the purchase of machinery and equipment and developmental activities of the Dafanpu Coal Mine.

Charge on Assets

As at 30 June 2018, the Group's mining rights for the Dafanpu Coal Mine with a carrying amount of RMB635,893,000 was pledged to a bank to secure banking facilities granted to the Group, the Group's bank loan of HKD149,264,000 from a bank in Macau was secured by the Group's pledged deposits amounting to RMB150,000,000 in Mainland China.

Financial Risk Management

(a) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates expose the Group to cash flow interest rate risk, while bank loans issued at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into any financial instruments to hedge against its interest rate risk for the six months ended 30 June 2018 but the Board will continue to closely monitor the Group's interest rate profile in order to manage its interest rate risk exposure.

(b) Foreign currency risk

The Group is not exposed to significant foreign currency risk since its transactions and balances are principally denominated in its functional currencies. As the foreign currency risk is insignificant, the Group did not enter into any financial instruments to hedge against foreign currency risk for the six months ended 30 June 2018.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting obligations associated with financial liabilities. The Group utilises cash flow forecast and other relevant information to monitor its liquidity requirements and to ensure the Group has sufficient cash to support its business and operational activities.

Human Resources and Emolument Policy

As at 30 June 2018, the Group had a total of approximately 783 full-time employees in the PRC and Hong Kong. For the six months ended 30 June 2018, the total staff costs, including the directors' emoluments, amounted to RMB106.4 million.

The Group's emolument policies are formulated based on the performance and experience of the individual employee and in line with the salary trends in the PRC and Hong Kong. Other employee benefits include performance-related bonuses, insurance and medical coverage and share options. Appropriate training programs are also provided to employees in order to ensure continuous staff training and development.

Exploration, Development and Mining Production Activities

For the six months ended 30 June 2018, the Group's Dafanpu Coal Mine produced a total of 2.61 million tonnes of commercial coal.

During the six months ended 30 June 2018, the Group entered into a number of contracts in relation to the coal shafts and conveyor system of the Dafanpu Coal Mine. As at 30 June 2018, the Group's outstanding capital commitments amounted to approximately RMB59.3 million, which were mainly related to the construction of coal storage facilities and the aforementioned development activities of the Dafanpu Coal Mine.

For the six months ended 30 June 2018, the Group incurred capital expenditures of approximately RMB20.7 million for the development and mining production activities of the Dafanpu Coal Mine. The capital expenditures were mainly related to the coal shafts and conveyor system of the Dafanpu Coal Mine.

The Group did not conduct any exploration activities and did not incur any expense or capital expenditure in exploration activities during the six months ended 30 June 2018.

The breakdown of the Group's expenses in relation to its mining production activities for the six months ended 30 June 2018 is summarised as follows:

	For the six months ended 30 June 2018 RMB'000
Cost items	
Mining costs	**152,117**
Processing costs	**30,629**
Government surcharges	**58,565**
Transportation and storage costs	**333,840**
Cost of sales	**575,151**
Finance costs	**21,384**
Total	**596,535**

Report on Review of Interim Condensed Consolidated Financial Statements

To the board of directors of Kinetic Mines and Energy Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 14 to 32, which comprises the consolidated statement of financial position of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month then ended, and explanatory notes. The Rules Governing the Listing of Securities on Main Board of The Stock Exchange of Hong Kong Limited require the preparation of interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this interim financial report based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "*Interim Financial Reporting*".

Certified Public Accountants
Hong Kong
21 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
REVENUE	4	**1,150,379**	737,529
Cost of sales		**(575,151)**	(440,255)
Gross profit		**575,228**	297,274
Other income	4	**35,972**	14,299
Selling expenses		**(3,730)**	(3,673)
Administrative expenses		**(67,804)**	(44,085)
Operating profit		**539,666**	263,815
Share of profit of an associate		**9,621**	4,741
Finance costs	6	**(21,384)**	(26,503)
PROFIT BEFORE TAX	5	**527,903**	242,053
Income tax expense	7	**(128,454)**	(56,962)
PROFIT FOR THE PERIOD		**399,449**	185,091
Other comprehensive income for the period:			
Exchange differences on translation of financial statements of operations outside the PRC		**(8,913)**	1,438
Total comprehensive income for the period		**390,536**	186,529
Basic and diluted earnings per share (RMB)	8	**0.047**	0.022

Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**1,195,774**	1,235,051
Land lease prepayments	10	**20,873**	21,092
Intangible assets	11	**635,893**	647,963
Interest in an associate		**67,869**	67,022
Deferred tax assets		**12,497**	14,407
Other non-current assets		**126,405**	10,000
Total non-current assets		**2,059,311**	1,995,535
CURRENT ASSETS			
Inventories	12	**100,041**	86,036
Trade and other receivables	13	**135,453**	136,908
Pledged deposits	14	**155,101**	155,101
Cash and cash equivalents		**96,813**	298,311
Total current assets		**487,408**	676,356
CURRENT LIABILITIES			
Trade and other payables	15	**251,350**	322,271
Contract liabilities		**49,802**	–
Bank loans	16	**554,000**	820,667
Income tax payable		**50,018**	92,179
Total current liabilities		**905,170**	1,235,117
NET CURRENT LIABILITIES		**(417,762)**	(558,761)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,641,549**	1,436,774

Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Accrual for reclamation costs		**3,779**	3,582
Deferred tax liabilities		**16,020**	–
Bank loans	16	**125,844**	124,771
Total non-current liabilities		**145,643**	128,353
Net assets		**1,495,906**	1,308,421
EQUITY			
Share capital		**54,293**	54,293
Reserves		**1,441,613**	1,254,128
Total equity		**1,495,906**	1,308,421

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ Retained earnings RMB'000	Total equity RMB'000
At 1 January 2017	54,293	907,627	141,831	52,006	11,337	(183,303)	983,791
Profit for the period	–	–	–	–	–	185,091	185,091
Other comprehensive income	–	–	–	–	1,438	–	1,438
Total comprehensive income for the period	–	–	–	–	1,438	185,091	186,529
Dividend paid	–	(148,494)	–	–	–	–	(148,494)
Appropriation of maintenance and production funds	–	–	–	51,052	–	(51,052)	–
Utilisation of maintenance and production funds	–	–	–	(7,099)	–	7,099	–
At 30 June 2017 (Unaudited)	54,293	759,133	141,831	95,959	12,775	(42,165)	1,021,826
At 1 January 2018	**54,293**	**686,958**	**141,831**	**162,179**	**16,588**	**246,572**	**1,308,421**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**399,449**	**399,449**
Other comprehensive income	**–**	**–**	**–**	**–**	**(8,913)**	**–**	**(8,913)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**(8,913)**	**399,449**	**390,536**
Dividend paid	**–**	**(203,051)**	**–**	**–**	**–**	**–**	**(203,051)**
Appropriation of maintenance and production funds	**–**	**–**	**–**	**84,329**	**–**	**(84,329)**	**–**
Utilisation of maintenance and production funds	**–**	**–**	**–**	**(20,003)**	**–**	**20,003**	**–**
At 30 June 2018 (Unaudited)	**54,293**	**483,907**	**141,831**	**226,505**	**7,675**	**581,695**	**1,495,906**

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Net cash generated from operating activities	**419,420**	300,952
INVESTING ACTIVITIES		
Interest received	**519**	530
Payments for purchase of property, plant and equipment	**(53,784)**	(22,209)
Proceeds from disposal of property, plant and equipment	**–**	201
Loan granted to a company	**(77,000)**	–
Payments for land lease	**–**	(683)
Net cash used in investing activities	**(130,265)**	(22,161)
FINANCING ACTIVITIES		
New bank loans	**180,000**	533,549
Repayments of bank loans	**(455,000)**	(479,533)
Increase in pledged time deposits	**–**	(130,000)
Dividends paid	**(203,051)**	(148,494)
Interest paid	**(12,938)**	(24,656)
Net cash used in financing activities	**(490,989)**	(249,134)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(201,834)**	29,657
Cash and cash equivalents at 1 January	**298,311**	85,742
Effect of foreign exchange rate changes	**336**	(96)
Cash and cash equivalents at 30 June	**96,813**	115,303

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 27 July 2010 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). The Company's registered office address is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the extraction and sale of coal products. There has been no significant change in the Group's principal activities during the period.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is King Lok Holdings Limited, which was incorporated in the British Virgin Islands with limited liability.

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure provisions of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("Listing Rules"), including compliance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34").

The preparation of an interim financial statements in conformity with HKAS 34 requires management to make judgements,estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial statements contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Kinetic Mines and Energy Limited (the "Company") and its subsidiaries (the "Group") since the 2017 annual financial statements. The interim condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

As at 30 June 2018, the Group had net current liabilities balance of RMB417,762,000 (unaudited) (31 December 2017: RMB558,761,000). The Group's ability to repay its debts when they fall due heavily relies on its future operating cashflows and its ability to renew the bank loans.

In view of the above, the directors of the company have carefully assessed the Group's liquidity position having taken into account (i) the estimated operating cash inflows of the Group for the next twelve months from the end of the current reporting period; and (ii) an undertaking of Mr. Zhang Li, a shareholder and director of the Company, to provide financial support to the Group and to provide personal guarantees for any new loan facilities when necessary. Together with the fact that part of the bank loans are secured by pledge of the Group's assets, the directors of the Company consider that it is highly probable that the bank loans can be renewed in the next twelve months.

On the basis of the above consideration, the directors of the Company believe that the Group can satisfy its financial obligations in the foreseeable future and accordingly, these interim condensed consolidated financial statements have been prepared on a going concern basis.

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new and revised standards effective as of 1 January 2018, noted below.

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations that are effective from 1 January 2018 did not have any significant effect on the financial position or performance of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption.

The Group's principal activities are the extraction and sale of coal products. The Group has concluded that revenue from the sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on timing of revenue recognition and amount to be recognised.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss "FVPL", amortised cost, or fair value through other comprehensive income "FVOCI". The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

2.2 NEW STANDARDS AND AMENDMENTS ADOPTED BY THE GROUP (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

(b) Impairment (Cont'd)

The application of HKFRS 9 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

3. SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of the extraction and sales of coal products. Therefore, the Group's management considers that there is only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented for the period.

No geographic information is shown as the Group's operating profit is entirely derived from its business activities in the People's Republic of China (the "PRC").

4. REVENUE, OTHER INCOME AND GAINS

The principal activities of the Group are the extraction and sale of coal products. Revenue represents the sales value of goods supplied to customers, excluding value added taxes, other sales taxes or any trade discounts.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of coal products	**1,150,379**	737,529
Other income and gains		
Government grants	**23,367**	13,189
Foreign exchange gain	**8,421**	25
Interest income	**2,828**	530
Others	**1,356**	555
	35,972	14,299

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Transportation and storage costs	**333,840**	269,027
Cost of inventories	**241,311**	171,228
Depreciation	**60,022**	68,851
Amortisation of intangible assets	**12,070**	8,226
Amortisation of land lease prepayments	**219**	216
Operating lease charges	**569**	708
Staff costs:		
Salaries, wages, bonuses and benefits	**102,361**	69,092
Contribution to defined contribution plans	**4,057**	2,987
	106,418	72,079

Cost of inventories for the six months ended 30 June 2018 included RMB124,570,000 (unaudited) (six months ended 30 June 2017: RMB111,185,000) relating to staff costs, depreciation and amortization, which amounts are also included in the respective amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expenses on bank loans	**21,187**	26,437
Unwinding of discount	**197**	66
	21,384	26,503

Notes to the Interim Condensed Consolidated Financial Statements
30 June 2018

7. INCOME TAX

The major components of income tax expense in the consolidated statement of profit or loss are:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax – Mainland China	**110,524**	47,914
Deferred Tax		
Origination and reversal of temporary differences	**17,930**	9,048
Total tax expense for the year	**128,454**	56,962

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Company and its subsidiary, Blue Gems Worldwide Limited ("Blue Gems") are not subject to any income tax in the Cayman Islands and BVI respectively.

(b) No provision has been made for Hong Kong profits tax as the Group did not generate any assessable profits (unaudited) subject to Hong Kong profits tax for the six month ended 30 June 2018 (six months ended 30 June 2017: nil (unaudited)).

(c) PRC corporate income tax ("CIT") was provided at a rate of 25% (2017: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which were prepared in accordance with the relevant PRC accounting standards, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

From January 1, 2011 to December 31, 2020, enterprise income tax may be levied at a reduced tax rate of 15% on enterprises in encouraged industries that are established in the western region according to Cai Shui [2011] No. 58. The operation business of Inner Mongolia Zhunge'er Kinetic Coal Limited belongs to the encouraged industries in the "Revised Version of Catalogue of Encouraged Industries in the Western Region (2011) (產業結構調整指導目錄(2011年本)修正)", so it enjoys a preferential corporate income tax rate of 15%.

8. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on the profit for the period of RMB399,449,000 (unaudited) and the 8,430,000,000 (unaudited) shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit for the period of RMB185,091,000 (unaudited) and the 8,430,000,000 (unaudited) shares in issue during the period.

There were no dilutive potential ordinary shares during the six-month periods ended 30 June 2018 and 2017, and therefore, diluted earnings per share is the same as the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Carrying amount of property, plant and equipment RMB'000
At 1 January 2018	1,235,051
Additions	20,745
Disposal	–
Depreciation	(60,022)
At 30 June 2018 (Unaudited)	1,195,774

The Group is in the process of applying for the title certificates of certain properties with carrying value of RMB300,436,000 (31 December 2017: RMB305,356,000) as at 30 June 2018. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

10. LAND LEASE PREPAYMENTS

	2018 RMB'000
At 1 January	21,092
Additions	–
Amortised during the period	(219)
Carrying amount:	
At 30 June 2018 (Unaudited)	20,873

11. INTANGIBLE ASSETS

The mining rights with carrying value of RMB635,893,000 (unaudited) (31 December 2017: RMB647,963,000) were pledged as security for bank loans of the Group as at 30 June 2018 (note 16).

Notes to the Interim Condensed Consolidated Financial Statements
30 June 2018

12. INVENTORIES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Coal products	**57,528**	42,977
Raw materials, accessories and chemicals	**42,513**	43,059
	100,041	86,036

During the six months ended 30 June 2018, there were no write down of inventories.

13. TRADE AND OTHER RECEIVABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade debtors	**59,399**	72,438
Prepayments and deposits	**38,023**	22,162
Other receivables	**38,031**	42,308
	135,453	136,908

(a) Aging analysis:

As at the end of the reporting period, the aging analysis of trade debtors (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 6 months	**59,399**	72,438

Trade debtors are generally due within 30 to 180 days from the date of billing.

13. TRADE AND OTHER RECEIVABLES (Cont'd)

(b) Trade debtors that are not impaired:

The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Neither past due nor impaired	**59,399**	72,438

Trade debtors that were neither past due nor impaired relate to customers for whom there was no recent history of default.

14. PLEDGED DEPOSITS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Pledged for bank loans	**150,000**	150,000
Pledged to comply with government regulations	**5,101**	5,101
	155,101	155,101

As at 30 June 2018, the Group's bank balances of RMB150,000,000 (31 December 2017: RMB150,000,000) were deposited as guarantee fund for the Company to obtain bank loan of HKD149,264,000 from a bank in Macau, and of approximately RMB5,101,000 (31 December 2017: RMB5,101,000) were deposited with creditworthy banks with no recent history of default as a mine safety production guarantee fund pursuant to the related government regulations.

Notes to the Interim Condensed Consolidated Financial Statements
30 June 2018

15. TRADE AND OTHER PAYABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Payables for construction	155,956	181,704
Other payables and accruals	80,541	117,060
Amounts due to related parties (note 19(c))	14,853	23,507
	251,350	322,271

16. BANK LOANS

As at 30 June 2018 and 31 December 2017, the Group's bank loans were repayable within 3 years. The Group's secured and unsecured bank loans were as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Current:		
Bank loans – secured	180,000	391,667
Current portion of long term bank loan – secured	374,000	429,000
	554,000	820,667
Non-current:		
Bank loans – secured	125,844	124,771
	679,844	945,438

Notes to the Interim Condensed Consolidated Financial Statements
30 June 2018

16. BANK LOANS (Cont'd)

Certain of the Group's bank loans are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB150,000,000 (31 December 2017: RMB150,000,000);

(ii) the securities of Inner Mongolia Zhunge'er Kinetic Coal Limited held by the Group; and

(iii) the mining rights of Inner Mongolia Zhunge'er Kinetic Coal Limited.

In addition, the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson have guaranteed certain of the Group's bank loans up to RMB554,000,000 (31 December 2017: RMB820,667,000), and Kinetic (Tianjin) Coal Co., Limited have guaranteed certain of the Group's bank loans up to RMB180,000,000 (31 December 2017:nil) as at the end of the reporting period.

17. DIVIDENDS

The Board of Directors proposed an interim dividend of HKD0.015 per share, payable to shareholders of the Company on or before 30 November 2018. The dates for closure of register of members of the Company for ascertaining shareholders' entitlement to receive the proposed interim dividend will be further announced. The total amount of the interim dividend to be distributed is estimated to be approximately HKD126,450,000 (six months ended 30 June 2017: HKD84,300,000).

18. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

Capital commitments outstanding as at 30 June 2018 not provided for in the interim condensed consolidated financial statements were as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Authorised and contracted for construction and purchase of mining machineries	**59,284**	46,888

(b) Lease commitments

As at 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 1 year	**1,054**	1,211
After 1 year but within 5 years	**846**	1,240
	1,900	2,451

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

18. COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)

(c) Other commitments

According to the Group's production plan in the coming few years, the underground extraction activities will go into corresponding agricultural land area currently occupied by various domestic households. As such, during the year, management of the Group have started to liaise with those affected households for relocation request and provide monetary compensation thereon. As of 30 June 2018, the Group has entered into compensation agreements with majority of the affected households and paid up RMB42,113,000. The compensation agreed with individual household are computed pursuant to < Circular of the Zhungeer People's Government on printing and distributing the measures for the compensation and resettlement for the requisition of rural collective land > (《准格爾旗人民政府關於印發旗農村集體土地徵收補償安置辦法》（准政發(2013)42號）). The Group has estimated the aggregate compensation payable for such purpose to be approximately RMB265,844,000 and corresponding payments will be settled during 2018 to 2021. Compensation paid will be amortised throughout the extraction period of the affected area on a systematic basis.

19. RELATED PARTY TRANSACTIONS AND BALANCES

During the six months ended 30 June 2018, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Mr. Zhang Li	Director
Beijing R&F City Real Estate Development Co., Ltd ("R&F City")（北京富力城房地產開發有限公司）*	Controlled by Mr. Zhang Li
Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited ("Xiaojia JV")（神華准能肖家沙墕煤炭集運有限責任公司）*	An associate of the Group
Yangzhou Hospitality Institute ("YHI")（揚州中瑞酒店職業學院）*	Controlled by Mrs. Zhang Lin

* The English translation of the company name is for reference only. The official name of the company is in Chinese.

Notes to the Interim Condensed Consolidated Financial Statements
30 June 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(a) Transactions

Particulars of significant transactions between the Group and the above related parties are as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Loading service from Xiaojia JV	**47,496**	30,560
Training service from YHI	**596**	–
	48,092	30,560

(b) Amounts due from related parties

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	RMB'000	RMB'000
YHI	**2,200**	–

(c) Amounts due to related parties

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Xiaojia JV	**10,844**	19,498
R&F City	**4,009**	4,009
	14,853	23,507

Amounts due to related parties are unsecured, interest-free and repayable on demand.

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2018

19. RELATED PARTY TRANSACTIONS AND BALANCES (Cont'd)

(d) Key management personnel remuneration of the Group

Remuneration for directors and key management personnel of the Group is as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short-term employee benefits	**6,721**	6,103
Contribution to defined contribution retirement plan	**119**	82
	6,840	6,185

(e) Financial guarantees

As at 30 June 2018, the Group's banking facilities totalling RMB700,000,000 (unaudited) (31 December 2017: RMB700,000,000) were guaranteed by the Company, Kinetic (Qinhuangdao) Energy Co., Limited, Kinetic (Tianjin) Coal Co., Limited, Mr. Zhang Li and Mr. Zhang Liang, Johnson.

20. EVENTS AFTER REPORTING PERIOD

The Group had no significant non adjusting events subsequent to 30 June 2018.

21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 21 August 2018.

Other Information

CORPORATE GOVERNANCE

Corporate Governance Code

As the Company believes that good corporate governance is essential to the shareholders of the Company, the Board is committed to maintaining a high standard of corporate governance practices by placing strong emphasis on a quality board of Directors, sound internal controls and effective accountability to the shareholders as a whole.

The Board is of the view that the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2018.

Directors' and Relevant Employees' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code for securities transactions by the Directors.

All the Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code and the Company's code of conduct for the six months ended 30 June 2018.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to compliance with written guidelines on terms no less exacting than the required standards set out in the Model Code. Each of the relevant employees has been given a copy of the written guidelines.

No incident of non-compliance with these guidelines by the relevant employees was identified by the Company.

Audit Committee

The audit committee of the Company comprises two independent non-executive directors, namely Ms. Liu Peilian and Mr. Zheng Ercheng and one non-executive director, Ms. Zhang Lin. Ms. Liu Peilian is the chairman of the audit committee, who possesses the appropriate professional qualification on accounting or related financial management expertise. The principal duties of the audit committee include the review and supervision of the Group's financial reporting process and internal control system. The audit committee has reviewed the interim report of the Group for the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE OF INTERESTS

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long position in the ordinary shares of the Company

Name of Director	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial interests	880,050,000	10.44%
	Interest of spouse (Note 2)	2,800,000	0.03%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
Mr. Gu Jianhua	Beneficial interests	952,219	0.01%
Ms. Xue Hui	Beneficial interests	3,860,055	0.05%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2018.

Note 2: Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Her long position in 2,800,000 ordinary shares of the Company is deemed to be family interests of Mr. Zhang Li.

Note 3: King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson and Mr. Zhang Liang, Johnson is therefore deemed to be interested in the ordinary shares held by King Lok Holdings Limited.

Saved as above, as at 30 June 2018, none of the Directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS (Cont'd)

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures (Cont'd)

At no time during the six months ended 30 June 2018 was the Company, its subsidiaries, its associate, its fellow subsidiaries or its holding company a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares

So far as known to the Directors and chief executive of the Company, as at 30 June 2018, the persons or corporations who had interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in the ordinary shares of the Company

Name of substantial shareholders	Capacity/Type of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 1)
Mr. Zhang Li	Beneficial interests	880,050,000	10.44%
	Interest of spouse (Note 2)	2,800,000	0.03%
Madam Liao Dong Fen	Beneficial interests	2,800,000	0.03%
	Interest of spouse (Note 2)	880,050,000	10.44%
Mr. Zhang Liang, Johnson	Interest in a controlled corporation (Note 3)	5,307,450,000	62.96%
King Lok Holdings Limited	Beneficial interests (Note 3)	5,307,450,000	62.96%

Note 1: The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at 30 June 2018.

Note 2: Madam Liao Dong Fen is the spouse of Mr. Zhang Li. Accordingly, under the SFO, Mr. Zhang Li is deemed to be interested in the 2,800,000 ordinary shares held by Madam Liao Dong Fen, whereas Madam Liao Dong Fen is deemed to be interested in the 880,050,000 ordinary shares held by Mr. Zhang Li.

Note 3: King Lok Holdings Limited is wholly-owned and controlled by Mr. Zhang Liang, Johnson and he is therefore deemed to be interested in the ordinary shares held by King Lok Holdings Limited.

DISCLOSURE OF INTERESTS (Cont'd)

Long position in the ordinary shares of the Company (Cont'd)

Save as disclosed above, as at 30 June 2018, the Directors and chief executive of the Company were not aware of any other person or corporation having an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Share Option Scheme

The Company has adopted a share option scheme on 6 March 2012 (the "Share Option Scheme") for the purpose of providing incentives to participants to contribute to the Company and enabling the Company to recruit high-caliber employees and attract or retain talent that is valuable to the Group.

The maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme and any other share option scheme of the Company (if any) shall not in aggregate exceed 10% of the shares in issue (i.e. a maximum of 843,000,000 shares) as at 23 March 2012 unless refreshed. Moreover, no option may be granted to a participant if the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that participant in any 12-month period would exceed 1% of the Company's issued share capital from time to time.

An offer of the grant of an option may be accepted within 28 days from the date of offer and the amount payable on acceptance of such offer is HKD1.0. The subscription price in respect of any particular option is determined by the Board and shall be whichever is higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange daily quotations sheet on the offer date;

(ii) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; or

(iii) the nominal value of the shares.

The Share Option Scheme shall be valid and effective for a period of 10 years from the listing date, after which period no further options will be offered.

For the six months ended 30 June 2018, no option was granted under the Share Option Scheme and a total of 843,000,000 shares (representing 10% of the existing issued share capital of the Company) may be issued upon exercise of all options which may be granted under the Share Option Scheme as at the date of this interim report.

YANGMEI LONGTAI COAL MINE

Pursuant to the purchase option agreement entered into between Mr. Zhang Li and Zhunge'er Banner Fuliang Mining Limited (准格爾旗富量礦業有限公司) on 9 March 2012, the Group has the right to acquire 85% equity interest in Guizhou Fuliang Mining Limited (貴州富量礦業有限公司) ("Guizhou Fuliang"). Guizhou Fuliang is in the process of obtaining mining rights to the Yangmei Longtai Coal Mine through its wholly-owned subsidiary Guizhou Yangmei Longtai Coal Limited (貴州楊梅龍泰煤業有限責任公司).